



# 2019 Budget Planning Preliminary Budget Gap and Funding Options

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July 14, 2018



# Overview

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- In April 2018 DAS-PSB provided report 18-322 to County Board projecting preliminary 2019 budget gap estimate of \$23.3 million
- Report 18-322 outlined three broad strategies for closing the budget gap including (1) Divest, (2) Temporary Fix, and (3) Sustainability
- Report was presented to the Finance and Audit Committee in May. Committee members expressed interest in seeing additional information regarding how gap could be closed under each strategy
- This presentation is a continuation of file 18-322 and provides:
  - Update of Budget Gap Estimate
  - Department Tax Levy Reductions needed under “Divest” budget option
  - Analysis of Local Revenues and Available Options





# Agenda

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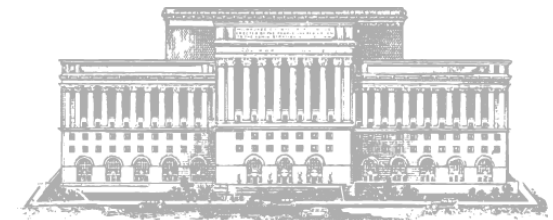
1. Projected Budget Gap Update
2. Gap Closing Strategies
3. Tax Levy Reduction Targets
4. Local Revenue Analysis and Options





# 1. Projected Budget Gap Update

2019 Operating Budget Gap Estimate		
Description	Initial Estimate	Revised Estimate
Salaries	\$ 3.8	\$ 6.8
Health Care	\$ 8.4	\$ 5.0
Pension	\$ 4.0	\$ 2.0
Debt Svc	\$ 0.5	\$ 0.5
Operating Cost to Continue	\$ 6.6	\$ 6.6
Restorations	\$ 1.9	\$ 2.6
Liability Insurance	\$ -	\$ 0.6
Seasonal Employees	\$ -	\$ 1.3
<b>Total Expense</b>	<b>\$ 25.2</b>	<b>\$ 25.4</b>
<b>Revenue Change - Lost Revenues</b>		
Debt Service	\$ 6.6	\$ 6.6
Parking Fees	\$ 1.6	\$ 1.6
<b>Revenue Changes - Increased Revenues</b>		
Property Tax	\$ (2.9)	\$ (2.9)
Sales Tax	\$ (1.8)	\$ (1.8)
VRP Increase	\$ (0.7)	\$ (0.7)
Unclaimed Revenue	\$ (1.3)	\$ (1.3)
Other Changes	\$ (3.5)	\$ (3.5)
<b>Total Revenue</b>	<b>\$ (1.9)</b>	<b>\$ (1.9)</b>
<b>Gap Total</b>	<b>\$ 23.3</b>	<b>\$ 23.5</b>





# 1. Projected Budget Gap Update

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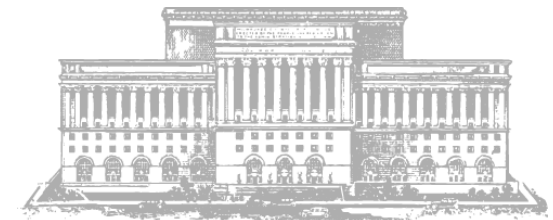
- Expenditure changes from initial projection:
  - Pension growth estimate reduced from \$4.0 million to \$2.0 million based on updated actuary reports.
    - Pension fund received favorable investment return rate of 13.6% in 2017 which results in flat expenditures for 2019
    - \$2.0M increase projection primarily for Doyne/URMS pension liability which is outside of the County's pension fund
  - Health Care growth estimate reduced from \$8.4 million to \$5.0 million based on review of recent actuals which show lower growth rates in health insurance than previously projected in 2018 budget and by actuary
  - Liability Insurance risk of \$600 thousand added to gap estimate
  - \$1.3 million added to gap estimate to address seasonal employee issue in parks & zoo. This is a preliminary estimate of amount needed to convert staff to FTE
  - Salary increase estimate revised from \$3.8 million to \$6.8 million based on feedback from departments regarding top priorities for the County and the need to address salary equity issues resulting from step increases being frozen since 2010





## 2. Gap Closing Strategies

2019 Operating Budget Gap Estimate		Gap Closing Strategies		
Description	Revised Gap Estimate	Divest	Temporary Fix	Sustain
Salaries	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.8
Health Care	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0
Pension	\$ 2.0	\$ 2.0	\$ 2.0	\$ 15.5
Debt Svc	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Operating Cost to Continue	\$ 6.6	\$ -	\$ -	\$ 6.6
Restorations of 2018 Reductions	\$ 2.6	\$ 2.6	\$ 2.6	\$ 2.6
Liability Insurance	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6
Seasonal Employees	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3
Restore Capital Fund to 20% Cash Goal	\$ -	\$ -	\$ -	\$ 5.5
Innovation Fund	\$ -	\$ -	\$ -	\$ 1.0
<b>Total Expense</b>	<b>\$ 25.4</b>	<b>\$ 18.8</b>	<b>\$ 18.8</b>	<b>\$ 45.4</b>
<b>Revenue Change - Lost Revenues</b>				
Debt Service	\$ 6.6	\$ -	\$ -	\$ 6.6
Parking Fees	\$ 1.6	\$ 1.6	\$ 1.6	\$ 1.6
<b>Revenue Changes - Increased Revenues</b>		\$ -	\$ -	\$ -
Property Tax	\$ (2.9)	\$ (2.9)	\$ (2.9)	\$ (2.9)
Sales Tax	\$ (1.8)	\$ (1.8)	\$ (1.8)	\$ (1.8)
VRF Increase	\$ (0.7)	\$ (0.7)	\$ (0.7)	\$ (0.7)
Unclaimed Revenue	\$ (1.3)	\$ (1.3)	\$ (1.3)	\$ (1.3)
Other Changes	\$ (3.5)	\$ (3.5)	\$ (3.5)	\$ (3.5)
<b>Total Revenue</b>	<b>\$ (1.9)</b>	<b>\$ (8.6)</b>	<b>\$ (8.6)</b>	<b>\$ (1.9)</b>
<b>Gap Total</b>	<b>\$ 23.5</b>	<b>\$ 10.2</b>	<b>\$ 10.2</b>	<b>\$ 43.5</b>
<b>Additional Gap Closing Assumptions</b>				
Other / Revenue / Savings		\$ (2.8)	\$ (2.8)	
Departmental Levy Reductions		\$ (7.5)		
New Revenues			\$ (7.5)	\$ (43.5)
<b>Net Total</b>	<b>\$ 23.5</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

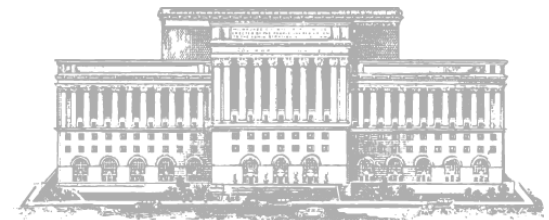




### 3. Tax Levy Reduction Targets

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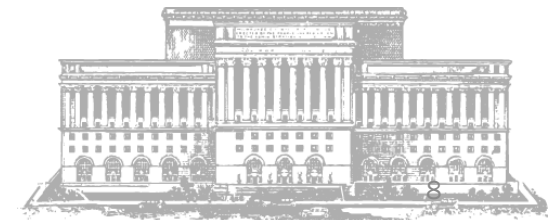
- Tax levy reduction targets have been issued to departments as part of the request budget phase
- Reductions can be added back in recommended or adopt phase if there is a solution
- Departments tasked to reduce levy by 1.1% of total 2018 adopt budget
- \$7.5 million County-wide reduction which equals reduction amount needed under “Divest” budget strategy





# 3. Tax Levy Reduction Targets

2019 BUDGET TAX LEVY REDUCTION TARGETS: 1.1% of TOTAL BUDGET (DIVEST OPTION)					
County Executive Cabinet Departments		Elected Departments		Excluded Departments	
Agency	Reduction	Agency	Reduction	Agency	Reduction
102 CEX - Vets	\$ (2,173)	200 Courts	\$ (293,394)	<i>Revenue Departments:</i>	
103 CEX - Gov Affairs	\$ (2,447)	290 Courts Pre-Trial	\$ (54,384)	504 DOT-Airport	\$ -
109 OAAA	\$ (6,934)	340 ROD	\$ (17,894)	580 DOT-Directors	\$ -
112 PRB	\$ (3,072)	370 Comptroller	\$ (46,464)	530 DOT-Fleet	\$ -
113 Corp Counsel	\$ (11,475)	450 DA	\$ (124,680)	510 DOT-Highway	\$ -
114 Human Resources	\$ (58,962)	400 Sheriff	\$ (501,198)	550 DAS-Utility	\$ -
115 DAS	\$ (407,242)			243 Child Support	\$ -
430 HOC	\$ (495,421)			<i>Elected Offices wiith Limited Staff:</i>	
480 OEM	\$ (79,483)			110 CEX - General	\$ -
490 Medical Examiner	\$ (43,726)			100 County Board	\$ -
560 DOT-Transit	\$ (1,341,389)			309 Treasurer	\$ -
630 DHHS-BHD	\$ (2,121,974)			327 Clerk	\$ -
800 DHHS	\$ (1,017,111)			<i>High Risk Areas:</i>	\$ -
790 Aging	\$ (184,405)			116 DAS-IMSD	\$ -
900 Parks	\$ (384,945)			117 DAS-Risk	\$ -
950 Zoo	\$ (176,576)			301 Election Commission	\$ -
Culturals	\$ (105,901)				
<b>Total Cabinet Depts</b>	<b>\$ (6,443,235)</b>	<b>Total Elected Depts</b>	<b>\$ (1,038,012)</b>	<b>Excluded Depts</b>	<b>\$ -</b>
<b>GRAND TOTAL</b>					<b>\$ (7,500,000)</b>







## 4. Local Revenue Analysis and Options

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1. Taxing Authority in Wisconsin
2. County Revenue Authority and Options





# Overview of Taxing Authority in Wisconsin

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## 1. State Taxing Authority is Granted by State Constitution

Wis. Const. Article VIII §1

“The rule of taxation shall be uniform but the legislature may empower cities, villages or towns to collect and return taxes on real estate located therein by optional methods ... Taxes may also be imposed on incomes, privileges and occupations, which taxes may be graduated and progressive, and reasonable exemptions may be provided.”

## 2. County’s Taxing Authority is Granted by Statute

The Supreme Court has indicated that **“Local units of government may enact only those taxes that the state government authorizes by legislation.”**





# Taxing Authority in Wisconsin

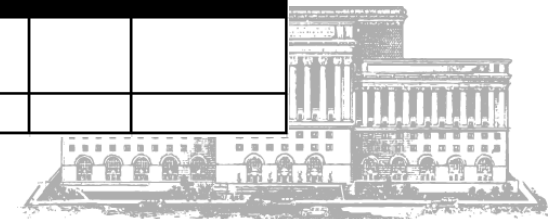
Summary Of Taxing Authority in Wisconsin							
	State	County	City	Exposition District	Premier Resort	School District	MMSD
Income Tax	71.02(1)						
Sales Tax	77.52(1), (2)	77.7					
Property Tax - Operations		59.07(5), 61.46	59.07(5), 61.46			119.46	66.91(6)
Property Tax - Debt		Const. Art XI 3(3)				119.46	66.91(6)
VRF		341.35(1)	341.35(1)				
Hotel Tax			66.75(1)	66.75(1)			
Food & Beverage				77.98			
Car Rental				77.99			
Premier Resort					66.1113(1) (d)		
Franchise on Cable			66.082(3)(c)				
Trust & Estate	71.02, 72.02						
Partnership Tax	71.19						
Corporate Tax	71.23						
S- Corp	71.32						
Utility	76.13						
Urban Transit	71.37						
Insurance	71.43(1)						
Franchise	71.23(2)						
Cropland	77.06(5)						
Recycling	77.93						
Liquor	139.03						
Tobacco	139.76(1)						
Bingo	563.8						





# Taxing Authority in Wisconsin

Summary Of Taxing Authority in Wisconsin (Continued)							
	State	County	City	Exposition District	Premier Resort	School District	MMSD
Controlled Substances	139.88						
Mining	70.375(2m)						
Iron Ore	70.40(1)						
Grain Storage	70.41(1)						
Coal Storage	70.42(1)						
Petroleum	70.421(1)						
Mink	70.425(1)						
Gas	70.397(2)						
Power	76.28(2)(a)						
Telephone	76.38(4)-(6)						
Car Line	76.39(2)						
Real Estate Transfer	77.22(1)						
Use	77.53(1)						
Fuel	78.01(1)						
Alternate Fuel	78.40(1)						
Aviation Fuel	78.555						
Cigarette	139.31(1), 139.315(1)						
Racing	562.08						
Prohibition on Income Tax		66.7					
Prohibition on Fuel Tax		78.82					





# County Taxing Authority

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- County Taxing Authority Limited to:
  - Sales Tax
  - Property Tax – Operations
  - Property Tax – Debt Service
  - Vehicle Registration Fee (VRF)
- Authority within these tax options is limited by State Statute as described in following slides

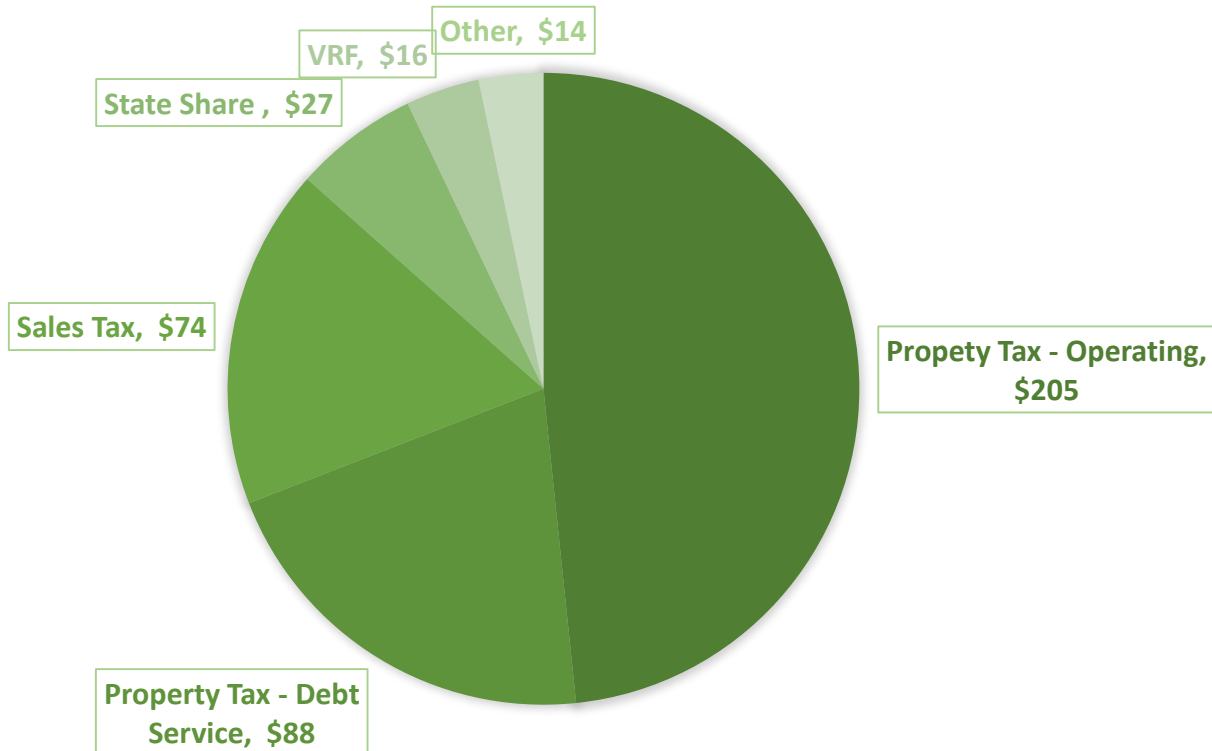




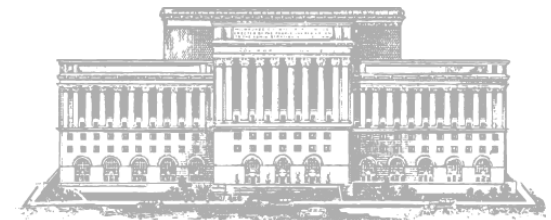
# County Revenue Summary

**2018 BUDGET LOCAL SHARE REVENUES: \$424M**

(INCLUDES ALL FUNDS, CAPITAL, VRF)



NOTE: Chart does not include State and Federal revenues or Direct Service Charges

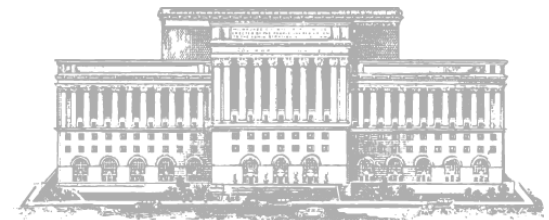




# Sales Tax

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- Milwaukee County sales tax equals 5.6% of which 5.0% goes to State, 0.5% comes to the County, and 0.1% goes to Brewers stadium
- 2018 Sales Tax budget = \$75.2 million
- Avg. growth of approximately 2.6% in past two years.
- 2.5% growth projected in preliminary 2019 budget estimate = \$1.8 million growth
- 2018 First Quarter sales tax revenues are below budget (22% of budget collected compared to 25% goal). Monthly sales tax figures can vary significantly (range \$4M to \$7M). We will continue to monitor collections in formulating the 2019 recommended budget.

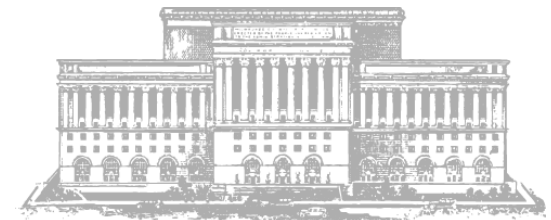




# Sales Tax

- An increase in Sales Tax would require change in State statutes (77.7)
- Below table shows Sales Tax increase scenarios
  - 0.1% generates \$15 million; 0.25% generates \$37.5 million

	Current	Increase Scenarios				
Sales Tax Rate	0.50%	0.60%	0.75%	1.00%	1.25%	1.50%
Incremental Increase			0.25%	0.50%	0.75%	1.00%
Collection (Millions)	\$75.0	\$90.0	\$112.50	\$150.0	\$187.5	\$225.0
Incremental Increase		\$15.0	\$37.5	\$75.0	\$112.5	\$150.0







# Sales Tax Comparative Cities

Sales Tax Rates for Midwestern Cities				
City	State	Local*	Total	Ranking
Chicago	6.25%	4.00%	10.25%	1
St. Louis	4.00%	4.45%	8.45%	23
Kansas City	4.23%	4.13%	8.35%	29
Cleveland	4.00%	2.25%	6.25%	50
Minneapolis	6.88%	0.90%	7.78%	59
Columbus	5.75%	1.75%	7.50%	73
Indianapolis	7.00%	0.00%	7.00%	82
Pittsburgh	6.00%	1.00%	7.00%	87
Detroit	6.00%	0.00%	6.00%	103
Milwaukee	5.00%	0.60%	5.60%	111
Maidson	5.00%	0.50%	5.50%	112

\*Local includes City/County/Special Districts

<https://taxfoundation.org/sales-tax-rates-major-cities-midyear-2017/>

Ranking is out of 115 localities w/ 200,000+ population





# Operating Property Tax

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- 2018 budget = \$205 million
- Growth is limited to percentage increase in net new construction per State statutes
- Average growth in net new construction over the past 3 years has been approximately 1.3%
- Preliminary 2019 estimate is for 1% growth or \$2.9 million increase
- On an annual basis the State Department of Revenue provides Counties with net new construction data around August 1<sup>st</sup>. This data combined with equalized property values is used to inform the recommended budget





# Operating Property Tax

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- In order to increase operating property tax above net new construction, referendum is required
- Levy Limit referendum language is controlled by State statutes 66.0602(4)
- Example: South Milwaukee

*Under state law, the increase in the levy of the City of South Milwaukee for the tax to be imposed for the next fiscal year, 2018, is limited to .09%, which results in a levy of \$10,774,142. Shall the City of South Milwaukee be allowed to exceed this limit and increase the levy for the next fiscal year, 2018, by a total of 5.73%, which results in a levy of \$11,381,095?*





# Property Tax for Debt Service

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- 2018 budget of \$88 million includes:
  - \$55 million of debt service financing for capital projects
  - \$33 million of Pension Obligation debt
- Property tax collections for the purpose of Debt Service are not limited by State statutes
- County has a self imposed bonding cap of 3% growth over prior year for capital projects





# Cash Financing vs Debt Service

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## Reasons to Cash Finance:

1. Save on Interest
2. Not all projects are eligible for bonds

Capital cash financing available budget is insufficient to fund deferred infrastructure needs

- *Cash requests of \$50M vs approx. \$10M cash financing at County's 20% cash goal (\$5.4M in 2018)*

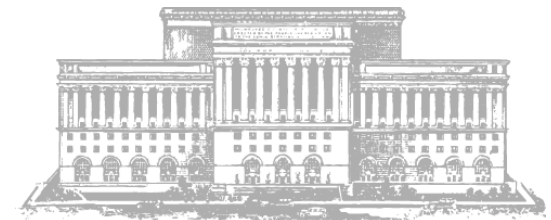




# Pension Obligation Bond Detail

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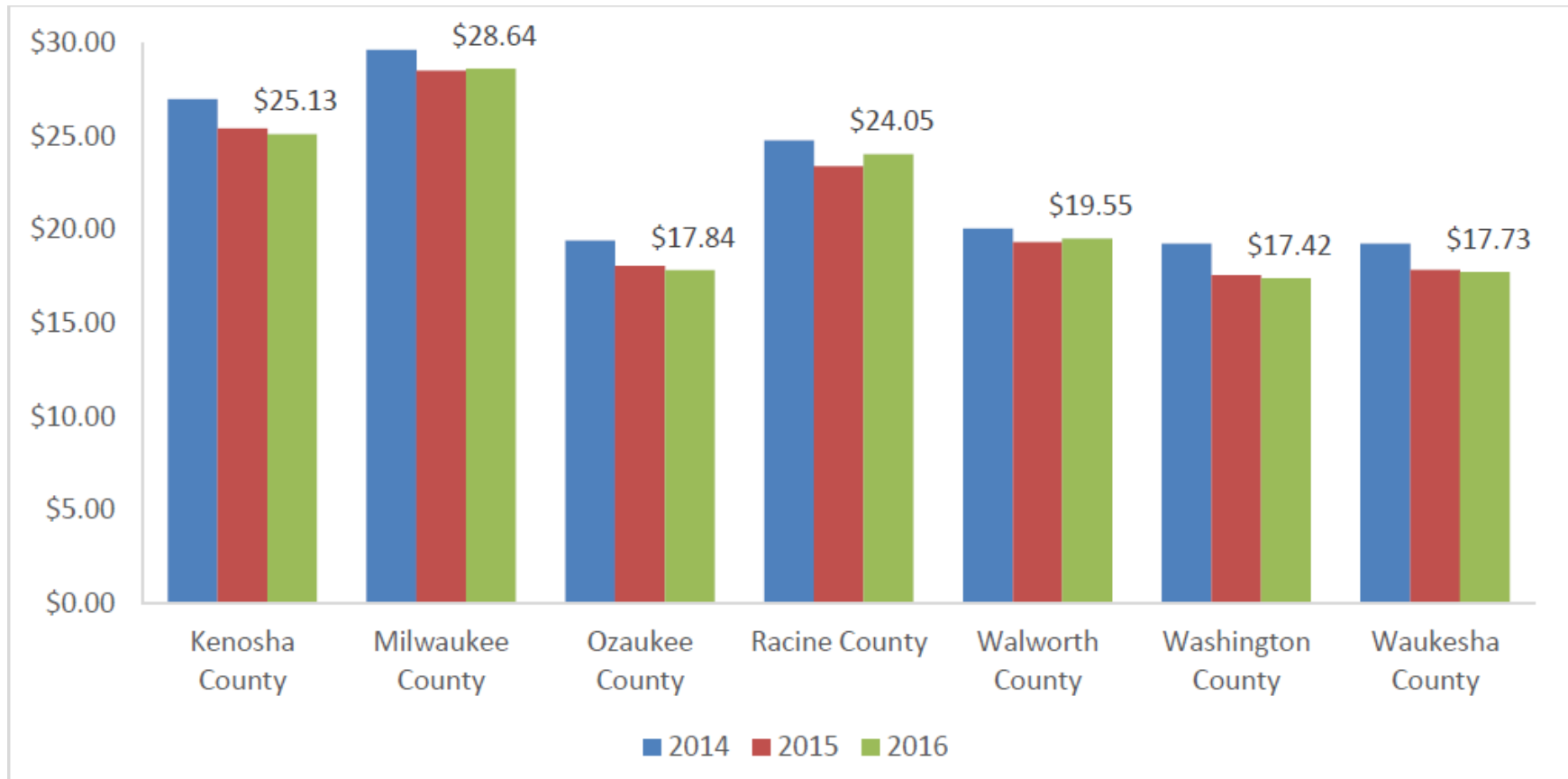
- In 2009, County sold \$400 million in Pension Obligation Bonds to pay down a portion of the unfunded pension liability
  - Annual debt payments of approx \$33 million
  - Projected amortization date in 2029
- County still has \$568 million unfunded pension liability being paid for with operating property tax levy
  - 2018 unfunded liability payment from operating budget equals \$53 million
  - Annual payments to the unfunded liability are expected to grow to \$90M+ by 2030's
  - Unfunded liability to be paid off in 2036 if investment return assumptions are met
- County has ability to issue additional Pension Obligation Notes and move unfunded liability from the operating budget to debt service
  - This could free up the \$53M and growing amount of operating property tax levy dedicated to the unfunded liability
  - However, this change would result in property tax increases





# Property Tax Comparisons

## Aggregate Gross Tax Rates by County





# Vehicle Registration Fee (VRF)

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- County charges annual VRF of \$30 to fund Transportation costs
- 2018 VRF Budget = \$16.0 million
- Past 12 month collections = \$16.7 million
  - Preliminary 2019 budget estimate assumes 2019 VRF budget will increase to \$16.7M
- County has Statutory authority to increase VRF up to approximately \$60 to replace tax levy for all transportation services
- VRF can only be used for transportation purposes







# VRF Increase Options

	Current Rate	INCREASE OPTIONS					
Annual VRF	\$30	\$35	\$40	\$45	\$50	\$55	\$60
Incremental Increase		\$5	\$10	\$15	\$20	\$25	\$30
Total Collection	\$ 16,000,000	\$ 18,666,667	\$ 21,333,333	\$ 24,000,000	\$ 26,666,667	\$ 29,333,333	\$ 32,000,000
Incremental Increase		\$ 2,666,667	\$ 5,333,333	\$ 8,000,000	\$ 10,666,667	\$ 13,333,333	\$ 16,000,000

- A \$5 fee increase adds approximately \$2.6M in VRF revenue
- \$15 increases VRF by \$8M and could allow County to avoid departmental budget cuts identified in the Divest budget strategy
- \$20 increase generates \$10.6M revenue and replaces tax levy in Transit
- \$30 increase adds \$16M in revenue of which could be distributed at approximately \$11M operating and \$5M capital
- Any VRF change becomes effective 3 months after approval
  - In order to collect a full year of revenue increase, approval needed in September

